



OFFICE OF THE INSPECTOR GENERAL  
SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2007 - SEPTEMBER 30, 2007

KENT R. NILSSON  
INSPECTOR GENERAL



**FEDERAL COMMUNICATIONS COMMISSION  
HEADQUARTERS BUILDING**

**PORTALS II BUILDING**



# MEMORANDUM

## OFFICE OF INSPECTOR GENERAL

### MEMORANDUM

**DATE:** October 31, 2007

**REPLY TO  
ATTN OF:** Inspector General

**SUBJECT:** Semiannual Report

**TO:** Chairman, Federal Communications Commission

In compliance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. § 5, I have attached my report summarizing the activities and accomplishments of the Office of the Inspector General ("OIG") during the six-month period ending September 30, 2007. In accordance with Section 5(b) of the Act, it would be appreciated if this report, along with the report that you prepare as Chairman of the Federal Communications Commission ("FCC"), were forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

During this reporting period, OIG activity has focused on investigations, audits and Universal Service Fund activities.

This report describes audits that are in process, as well as those that have been completed during the preceding six months. OIG investigative personnel continued to address issues referred to, or initiated by, this office. Where appropriate, investigative reports have been forwarded to the Commission's management for action.

This office is committed to maintaining the highest possible standards of professionalism and quality in its audits, investigations, inspections and consultations and we welcome any comments or suggestions that you might have. Please let me know if you have any questions or comments.



Kent R. Nilsson  
Inspector General

Enclosure  
cc: Chief of Staff  
Managing Director

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# INTRODUCTION

The Federal Communications Commission (“FCC”) is an independent regulatory agency, with authority delegated by Congress to regulate interstate and foreign communications by radio, television, wire, satellite and cable. The FCC’s jurisdiction covers the fifty States, the District of Columbia, the Commonwealth of Puerto Rico and all U.S. territories.

The FCC consists of a Chairman and four Commissioners, who are appointed by the President and confirmed by the United States Senate. Kevin J. Martin serves as Chairman. Michael J. Copps, Jonathan S. Adelstein, Deborah Taylor Tate and Robert M. McDowell serve as Commissioners. Most of the FCC’s employees are located in Washington, D.C. at the Portals II building, which is located at 445 12th St., S.W., Washington, D.C. Field offices and resident agents are located throughout the United States.

The Office of the Inspector General (“OIG”) is dedicated to ensuring com-

pliance with the requirements of the Inspectors General Act and assisting the Chairman in his continuing efforts to improve the effectiveness and efficiency of the Federal Communications Commission. The Inspector General (“IG”), Kent R. Nilsson, reports directly to the Chairman. The IG’s staff consists of accountants, attorneys, auditors, economists, and investigators. In addition, the staff is currently supplemented by two professionals on detail to OIG from other Commission offices. Principal assistants to the IG are: David L. Hunt, Assistant Inspector General (“AIG”) for Investigations/General Counsel; Curtis Hagan, AIG for Audits; William K. Garay, AIG for Universal Service Fund Oversight; Thomas Cline, AIG for Policy and Planning; and Harold Shrewsberry, AIG for Management.

This semiannual report includes the major accomplishments and activities of the OIG from April 1, 2007 through September 30, 2007, as well as relevant information on the IG’s goals and future plans.







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# **OIG MANAGEMENT ACTIVITIES**

**STAFFING**

**OFFICE MODERNIZATION**

**INTERNSHIP PROGRAM**

**LEGISLATIVE & POLICY MATTERS**

# OIG MANAGEMENT ACTIVITIES

## OFFICE STAFFING

Additional personnel, as well as funding to support the work of the Office, are essential to meeting the objectives of the Inspector General Act and fulfilling the responsibilities of the Inspector General that are contained in section 0.13 of the Commission's rules. So far, it has been possible to make progress because of the willingness of the Chairman and his staff to support the work of this Office. When the IG was appointed in January 2006, the Office had 10 professional employees. There are now 20 professionals and 2 support personnel and vacancy announcements have been posted to fill 3 additional positions. With each addition, the professional training, experience and personal commitment to improving the administration of the Commission's programs and eliminating fraud, waste and abuse has increased. Additional personnel, however, are urgently needed to meet the increasing demands that are being placed on this Office as the Commission's programs increase in size and complexity.

As we have previously reported, the IG has requested additional staff positions to support and perform quality assurance for audits in the Universal Service Fund (USF) area in prior OIG fiscal year budget requests. These resources, however, have not been provided through the legislative process although they were recommended by the Chairman and included in the President's budget. For FY2008, the Inspector General requested more than \$21.4 million and 23 additional FTE staff positions in the President's 2008 budget request. That request includes additional auditors, investigators, attorneys and information technology specialists to address dramatic growth in investigative activities. It is essential that these resource requirements be approved if this Office is to address, successfully, the expansions in work requirements that continue to confront this Office.

Our staff consists of well-trained, seasoned professionals, most of whom have one or more professional certifications. We support the efforts of our staff to ex-



# OIG MANAGEMENT ACTIVITIES

pand their bodies of knowledge and professional recognition, and the Chairman has funded examination preparation for the Certified Public Accountant and Certified Information System Security Professional designations as well as other professional training programs. In our continuing efforts to increase the expertise of our audits and investigative staffs, members of this Office have also attended training at the Inspector General Criminal Investigative Academy, other Federal Inspectors General training classes, master's level classes at colleges and universities, and technical seminars. In addition, we have leveraged our expertise in accounting and auditing to revitalize the FCC's professional training for the Commission's Certified Public Accountants, thereby contributing to improving the quality of professional education available to all of the Commission's accountants.

## **OFFICE MODERNIZATION**

We have reported in the last two semian-

nual reports that the IG had decided to modernize the Office to insure that the OIG will be prepared to manage and process the volume of activity anticipated for the Universal Service Fund ("USF"), financial statements and information technology audits of the FCC and its external program segments, financial controls audits of the FCC and its external program segments, and a steadily increasing volume of complex investigations. We have continued our modernization program with the purchase of secure E-mail software for the Assistant Inspector General for Investigations and his staff. The OIG is scheduled to receive new Blackberry wireless devices ("Blackberries") next month. These new Blackberries should enhance the ability of the professional staff to maintain internet connectivity as well as receiving enhanced voice communication services. In addition, the IG intends to acquire, and deploy, an IG knowledge system that will greatly improve the OIG's ability to manage audits, inspections, and investigations on site as well as in remote locations.

# OIG MANAGEMENT ACTIVITIES

## **INTERNSHIP PROGRAM**

The OIG welcomes college interns during the fall, spring and summer semesters.

Most of these students take their internships for credit. Recent interns have come from schools across the country including American University, Arizona State University, DePauw University, Georgetown University, Hamilton College, James Madison University, Long Island University, North Carolina State University, Purdue University, the University of California at Berkeley, the University of California at Davis, the University of Maryland Law School, the University of North Carolina, and Xavier University.

These internships have proven to be rewarding experiences for all participants. Students leave with a good understanding of how a government agency operates, and they have the opportunity to encounter challenges while enjoying the rewards that can come from public service. In turn, the Office has benefited from the students' excellent work per-

formance that, in part, has reflected their youth, exuberance, and special skills.

## **LEGISLATIVE & POLICY MATTERS**

Pursuant to section 4(a)(2) of the Inspector General Act of 1978 (IG Act), 5 U.S.C.A. App. § 4(a)(2) as amended, our Office monitors and reviews existing and proposed legislation and regulatory proposals for their potential impact on the OIG and the FCC's programs and operations. Specifically, we perform this activity to evaluate their potential for encouraging economy and efficiency while helping to reduce fraud, waste, abuse, and mismanagement.

During this reporting period, the Office monitored legislative activities affecting the activities of the OIG and the FCC. Also during this period, this Office monitored legislation and legislatively related proposals which may, directly or indirectly, affect the ability of IGs to function independently and objectively. We make no recom-

# OIG MANAGEMENT ACTIVITIES

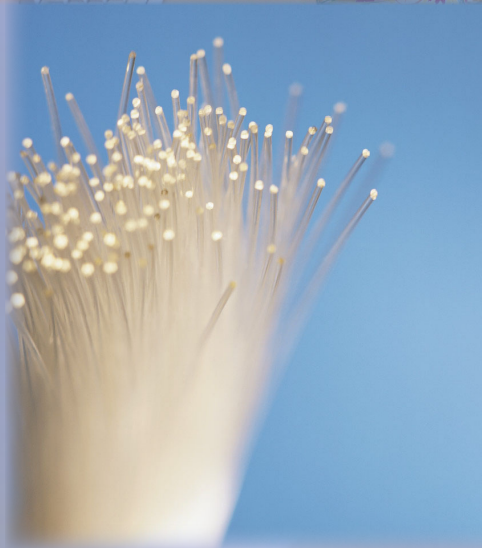
mendations concerning these legislative initiatives and proposals in this report.

In addition, the OIG continuously monitors FCC policy development and provides input as appropriate. In particular, the OIG has commented on policy and procedural matters that directly relate to audit and oversight of agency functions and programs, comments that have been sought and considered by the FCC's management.

In addition, during this reporting period, we reviewed and commented on agency directives for security, anti-fraud measures, Prompt Payment Act compliance, subscriptions management, Commission registration system procedures and the FCC's Information Technology Strategic Plan.









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# **AUDIT ACTIVITIES**

**FINANCIAL AUDITS**

**PERFORMANCE AUDITS**

**UNIVERSAL SERVICE FUND (USF) OVERSIGHT**

# AUDIT ACTIVITIES

## FINANCIAL AUDITS

Financial audits provide reasonable assurance as to whether the agency's financial statements are presented fairly in all material respects. Other objectives of financial audits are assessments of the internal controls over transaction processing for accurate financial reporting and assessment of compliance with applicable laws and regulations.

### Audit of the Federal Communications Commission Fiscal Year 2007 Consolidated Financial Statements

In accordance with the Accountability of Tax Dollars Act of 2002, the FCC prepared consolidated financial statements for the 2007 fiscal year in accordance with Office of Management and Budget ("OMB") Circular A-136, Financial Reporting Requirements, and subjected them to audit. The Chief Financial Officers Act of 1990 ("CFO Act"), as amended, requires the FCC Inspector General, or an independent external auditor selected by the Inspector General, to audit FCC financial statements in accordance with govern-

ment auditing standards issued by the Comptroller General of the United States. Under a contract supervised by the Inspector General, Clifton Gunderson LLP ("CG-LLP"), an independent certified public accounting firm, is performing the audit of the FCC's FY 2007 consolidated financial statements in accordance with the aforesaid standards; OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statement, amended; and applicable sections of the U.S. Government Accountability Office ("GAO")/President's Council on Integrity & Efficiency ("PCIE") Financial Audit Manual.

This audit is currently in progress.



# AUDIT ACTIVITIES

## PERFORMANCE AUDITS

Performance audits are systematic examinations that are conducted to assess the performance of a government program, activity, or function so that corrective action can be taken, if appropriate. Performance audits include audits of government contracts and grants with private sector organizations, as well as government and non-profit organizations that determine compliance with contractual terms, Federal Acquisition Regulations ("FAR"), and internal contractual administration.

### Telecommunications Relay Service

The Telecommunications Relay Service ("TRS") Fund compensates communications service providers for the costs of providing interstate telephone transmission services that enable a person with a hearing, or speech, disability to use such services to communicate with a person without hearing or speech disabilities. Distributions from the fund have grown substantially in recent years and there

is always an inherent risk of fraud and improper payments in the absence of effective controls and close, and continuing, oversight. The Inspector General initiated an audit program in fiscal year 2007 and audits of the TRS program are currently under way. Preliminary results from these audits point to a need for recurring audits of TRS providers. Subsequent to this reporting period, we reported in the Management Challenges letter to Chairman Martin (October 16, 2007) that improving fund administration and the procedures for setting accurate reimbursement rates for service are significant management challenges for the FCC. This management challenge suggests a continuing need for follow-up audits of the TRS administrator and of service providers.

### Auctions

Since 1994, the Commission has conducted auctions of the nation's electromagnetic spectrum that have resulted in total receipts of almost \$60 billion. The pro-

# AUDIT ACTIVITIES

cesses and controls for collecting auctions payments in effect during fiscal year 2006 were audited to determine whether auctions payments that were due to the Commission were being properly collected.

We contracted with KPMG LLP to audit the FCC's auction process. The audit program contained two phases. The first phase was to conduct an audit of selected manual and automated controls over the auctions payment collection process. The second phase of the audit testing consisted of a statistical sample of auctions payments to determine if payments were properly collected by the FCC. While no discrepancies were found in the collection of payments from, or refunds to, the winning bidders and non-winning bidders, five findings were identified in the FCC's management, operational, and technical controls that apply to those processes. FCC management concurred with the audit findings and is addressing the weaknesses that were identified.

This audit was then followed with an audit of the FCC's management controls

over the conduct of spectrum auctions. That audit is in progress.

## Purchase and Travelers Credit Card Programs

The purchase card and travel card programs funded by the FCC Auction Fund were audited by Clifton Gunderson LLP, under contract to OIG, to determine whether the programs are operated in accordance with applicable requirements, and to assess the effectiveness of internal controls over those programs.

The auditors found deficiencies in the design and operation of controls over the purchase card program and minor weaknesses were found in the operational controls over the travel card program. The FCC's management has already implemented corrective action to address these findings.

# AUDIT ACTIVITIES

## Universal Licensing System

The Universal Licensing System (“ULS”) is the consolidated database and applications filing system that is used by the Commission’s Wireless Telecommunications Bureau to process hundreds of thousands of license applications annually. ULS has simplified the application and licensing processes and is intended to provide secure, world-wide access through the Internet. An audit of application controls over ULS intake, processing, storage, and reporting of data was conducted by KPMG LLP under contract to the OIG. The effectiveness of the Bureau’s management, operational, and technical controls for the system was assessed and a network vulnerability assessment was performed. Several deficiencies were found in the controls over the system, and the auditors made recommendations to address those weaknesses. FCC management concurred with the recommendations and is in the process of correcting the deficiencies.

## FY 2007 Federal Information Security Management Act (FISMA) Evaluation and Risk Assessment

In accordance with the Federal Information Security Management Act (“FISMA”), the independent certified public accounting firm of Clifton Gunderson, L.L.P. (“CG, LLP”), was engaged to evaluate the FCC’s information security program. CCG, LLP reported on September 20, 2007 that the FCC has an established information security program and has been pro-active in reviewing security controls and identifying areas that need to be strengthened. Nonetheless, there were findings for which corrective action was recommended that concern security administration, logical access control, change control, and continuity of operations. None of the weaknesses, either individually or collectively, were deemed to be a significant deficiency as that term has been defined by the U.S. Office of Management and Budget. FCC management concurred with the recommendations and is working to address the deficiencies.



# AUDIT ACTIVITIES

## UNIVERSAL SERVICE FUND (USF) OVERSIGHT

Earlier semiannual reports have included a section that covers the Office's efforts to oversee the Universal Service Fund ("USF"). In the last semiannual report, we stated that this Office was working on an unprecedented audit effort of USF programs to include the Schools and Libraries, High Cost, Rural Health Care, and Low Income programs as well as audits of contributors to the USF fund. In this section, we provide an update on our oversight activities and on audits being conducted by other Federal Offices of Inspector General on our behalf. We also summarize significant investigative activity related to these programs.

For the first time, all of these programs and sources of revenue, have been subject to random statistical sampling and attest audits to determine whether these programs comply with the Commission's rules and regulations. In addition, the sampling methodologies and attest audit protocols were also created to initiate an assessment program that is consistent

with the Improper Payments Improvement Act of 2002, Public Law No. 107-300.

As discussed more fully below, these audits have not lessened our concern about the possibilities for fraud, waste, and abuse in the Commission's USF programs as administered by the Universal Service Administrative Corporation. As a consequence, we continue to remain committed to meeting our statutory responsibilities to provide effective, independent oversight of all aspects of the USF program. Although we have made progress in achieving the goal of establishing a more effective oversight program, we need significant increases in audit, investigative, and legal resources to achieve the goal of having a truly effective oversight program. Accordingly, we request that Congress approve the funding requests for this Office that are before it.

# AUDIT ACTIVITIES

## Update on OIG Oversight Activities

The statistical sample of USF participants resulted in 459 attest audits of USF program participants for beneficiaries in low income, schools and libraries, high cost, and rural health care as well as for contributors to the USF program. These audits were performed by public accounting firms under contract to USAC and under the guidance of the OIG. The audits were completed in this reporting period and the OIG has completed its initial statistical analysis of the results of the audits.

OIG's statistical analysis shows that, in general, the audits indicated compliance with the Commission's rules, although erroneous payment rates exceeded 9% in most USF program segments. The audits resulted in the following erroneous payments rates: Contributors' payments - 5.5% (statistically estimated to be approximately \$385, 000,000), Low Income - 9.5% (statistically estimated to be approximately \$75, 500,000); Schools and Libraries - 12.9% (statistically estimated

to be approximately \$210,000,000); High Cost Fund - 16.6% (statistically estimated to be approximately \$618,000,000); and Rural Health Care - 20.6% (statistically estimated to be approximately \$4,450,000).

An "erroneous payment" is defined by the Office of Management and Budget under the Improper Payments Information Act to be "any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments and underpayments (including inappropriate denial of payment or service). An improper payment includes any payment that was made to an ineligible recipient or for an ineligible service, duplicate payments, payments for services not received, and payments that are for the incorrect amount. In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error."

# AUDIT ACTIVITIES

These statistical analyses will improve the application of investigative and audit resources and yield information to the Commission that will enable it to improve the administration of these programs and further reduce fraud, waste and abuse. Although this work was completed during this semiannual reporting period, the OIG reports on the statistical analyses of this audit effort were issued subsequent to this semiannual reporting period.

As the audit sampling project moved forward, the OIG and USAC continued to review and finalize KPMG's previous audits of the Schools and Libraries program. To date, more than 100 audits have been conducted that have identified numerous compliance and control issues, as well as more than \$70 million of apparently im-

proper payments that were made in the Schools and Libraries program. The process of attempting to recover these funds is under way. Three reports were issued in final during the reporting period. An additional report addressing the audit of Orleans Parish School District in New Orleans, Louisiana was issued in draft. The auditors were unable to finalize the report because school officials did not provide comments on the draft report. However, absent comments from school officials or any other indication that the draft report is inaccurate, we recommend that USAC attempt to recover the improper payments identified in the draft report. Details on the four reports issued during the reporting period are in Table I as follows:

## Audits Conducted

Table I: E-rate Audit Reports Issued		
Beneficiary	Location	Potential Improper Payment
Grant Joint Union High School District	Sacramento, CA	\$126,753
Rio Grande City Consolidated Independent School District	Rio Grande City, TX	0
NW-LINKS, Inc.	Moorhead, MN	124,149
Orleans Parish School District	New Orleans, LA	570,458
<b>Total Potential Improper Payments</b>		<b>\$821,360</b>



# AUDIT ACTIVITIES

by Other Federal OIGs

On January 29, 2003, the Inspector General executed a Memorandum of Understanding (“MOU”) with the Department of the Interior Inspector General (“DOI-IG”). This MOU was a three-way agreement among the Commission, DOI-IG, and USAC for audits of schools and libraries funded by the Bureau of Indian Affairs (“BIA”) and other universal service support beneficiaries under the audit cognizance of DOI-OIG. Under the agreement, auditors from DOI-OIG performed audits for FCC-OIG and USAC. In addition to audits of schools and libraries, the agreement authorizes the DOI-OIG to consider requests for investigative support on a case-by-case basis. Since its inception, DOI-OIG has completed several reports under the MOU.

The final audit report on BIA’s participation in the E-rate program was issued on January 3, 2006. The audit disclosed that BIA generally complied with several key

E-rate Program requirements for program funding years 1998 through 2001. There were notable short comings, however. For example, BIA did not have an approved technology plan for FY 2002 and beyond, BIA lacked documents to substantiate major procurement activities, and BIA installed eligible services in ineligible buildings. Because of the lack of required documentation, the auditors were not able to determine whether BIA complied with E-rate Program rules and regulations for the competitive procurement of satellite Internet access services in the amount of \$1,583,482 for funding year 2000 and \$1,382,244 for funding year 2001. The auditors were also not able to estimate the cost of the ineligible work performed because the firm-fixed price awards did not contain sufficiently detailed cost and pricing data to permit the auditors to calculate the costs of the services installed in the ineligible buildings.

We received USAC’s comments on the BIA final report in September, 2006 and issued the report in May, 2007. With re-

# AUDIT ACTIVITIES

gard to the unsupported satellite internet access services procured in funding year 2000, FCC rules preclude seeking recovery of funding year 2000 funds after June 30, 2006. Therefore, USAC has been precluded from seeking recovery of any violations for funding year 2000. The limitations period for seeking recovery of funding year 2001 improper payments ended on June 30, 2007 with the consequence that USAC has been directed to initiate recovery of \$1,382,244 of unsupported costs for funding year 2001.

## Support to Investigations

In addition to the audit component of our oversight program, we have provided, and continue to provide, audit and inves-

tigative support to United States Department of Justice investigations of E-rate recipients and service providers. To implement the investigative component of this effort, we developed a working relationship with the Antitrust Division of the Department of Justice ("DOJ"). The Antitrust Division, in turn, has established a task force to conduct USF investigations that is comprised of attorneys in each of the Antitrust Division's seven field offices and the National Criminal Office. As of the end of this reporting period, we are directly supporting 28 investigations and monitoring an additional 5 investigations. Please refer to the Investigations section of this report for further information.

# INVESTIGATIONS

ACTIVITY DURING THIS PERIOD

SIGNIFICANT INVESTIGATIVE CASE SUMMARIES

OIG HOTLINE





# INVESTIGATIONS

Investigations pursued by this Office are initiated as a result of allegations received from several sources. Examples include FCC managers and employees who contact the OIG directly, complaints provided by the OIG hotline, and complaints that are received through the U.S. Postal Service. Allegations can be, and frequently are, made anonymously. Investigations may also be predicated on audit or inspection findings of fraud, waste, abuse, corruption, or mismanagement in FCC programs or operational segments, by FCC employees, contractors, and/or subcontractors, and through referrals from other governmental agencies.

The OIG works directly with Federal criminal authorities, either in supporting their investigations or in having those agencies support this office with resources unavailable within the FCC. Upon receiving an allegation of an administrative, civil, or criminal violation, the OIG usually conducts a preliminary inquiry to determine if an investigation, inspection, or further inquiry is warranted. Investigations may involve possible violations of Federal reg-

ulations regarding employee responsibilities and conduct, Federal criminal or civil law, and other regulations and statutes pertaining to the activities of the Commission and its regulatees. Investigative findings may lead to criminal or civil prosecution, or administrative action, or all of the foregoing.

The OIG also receives complaints from the general public, both private citizens and commercial enterprises, about the manner in which the FCC executes its programs and conducts its oversight responsibilities. All complaints are examined to determine whether there is any basis for OIG audit, inspection or investigative action. If the allegations are not within the jurisdiction of the Inspector General, the complaint is usually referred to the appropriate FCC bureau or office for response directly to the complainant. The OIG then continues to serve as a facilitator with respect to responses to complaints that are outside the jurisdiction of this office. Finally, matters may be referred to this office for investigative action from other governmental entities,

# INVESTIGATIONS

such as the Government Accountability Office, the Office of Special Counsel, and various Congressional offices.

As reported in previous semiannual reports, this office has been working to address an upsurge in cyber crime investigations. This trend has continued, and is absorbing substantially more investigative resources because of the complex nature of the investigations and the need for higher-grade forensic tools as well as the concomitant expertise that is necessary to use them. This trend, as well as an increasing number of investigations and actions likely to result from the significant increase in USF audits recently conducted, highlights the budgetary needs for the \$20.4 million and additional staff positions referred to in this, and previous reports.

In addition to the foregoing, the OIG continues to coordinate and provide assistance to Federal civil and law enforcement entities, as well as to state and local authorities, with respect to investigations pertaining to fraud in the Universal Ser-

vice Fund program of the Commission. These efforts led to the successful prosecution of another criminal E-Rate case in San Francisco, as described below, and follows the criminal trial reported in the preceding semi-annual report that detailed the conviction on E-Rate fraud in McAllen, Texas. Described below are summaries of significant cases investigated during the relevant period of this report. Many investigations, however, cannot be discussed because of confidentiality concerns, implications for other matters, or for security reasons.

## ACTIVITY DURING THIS PERIOD

Sixty-one (61) cases were pending from the prior period. Thirty-one (31) of those cases involve the Commission's Universal Service Fund (USF) program and have been referred to the Federal Bureau of Investigation (FBI) and/or the Department of Justice. An additional nine (9) non-USF and three (3) USF related complaints were received during the current report-

# INVESTIGATIONS

ing period. Over the last six months, six (6) cases, one (1) USF and five (5) non-USF related, have been closed. A total of sixty-seven (67) cases are pending, of which thirty-three (33) relate to the USF program. The OIG continues to monitor, coordinate and/or support activities regarding those thirty-three (33) investigations. The investigations pertaining to the pending thirty-three (33) non-USF cases are on-going.

Statistics	
Cases Pending as of March 31, 2007	61
New Cases	12
Cases Closed	6
Cases Pending as of September 30, 2007	67

## SIGNIFICANT CASE SUMMARIES

On September 14, 2007, a Federal jury in San Francisco, California, convicted Judy Green, a former sales representative and school consultant, for her role in schemes to defraud the Federal E-Rate program.

Ms. Green was convicted on all felony charges in a 22-count indictment involving fraud, collusion, aiding and abetting, and conspiracy in connection with E-Rate projects at schools in seven states – Arkansas, California, Michigan, New York, Pennsylvania, South Carolina, and Wisconsin. This case was initiated on December 8, 2005, when six companies and six individuals (including Ms. Green) were charged with participating in criminal schemes. The Department of Justice alleged losses of between \$100 and \$200 million. Those charged were:

- Video Network Communications Inc. (VNCI) - Portsmouth, New Hampshire
- Howe Electric Inc. - Fresno, California
- Sema4 Inc. - San Juan Capistrano, California



# INVESTIGATIONS

- Digital Connect Communications - San Juan Capistrano, California
- Expedition Networks, Ltd. - North Hills, California
- ADJ Consultants Inc. (ADJ) - Temecula, California
- Judy Green - Former Sales Representative for VNCI and Co-Owner of ADJ
- Allan Green - Co-Owner of ADJ
- George Marchelos - Former Sales Representative for VNCI
- Steven Newton - Former Vice President at Premio Computer Inc.
- Earl Nelson - Former Branch Manager for Inter-Tel Technologies Inc.
- William Holman - Former Vice President of Sales for NEC-BNS

Expedition Networks, Ltd. pled guilty and was sentenced to a fine of \$5 million. Allan Green, George Marchelos, Steven Newton, Earl Nelson, and William Holman have pled guilty and are awaiting sentencing. Charges against Howe Electric Inc. are pending. VNCI, Sema4, Digital Connect, and ADJ Communications are defunct; charges against them have been dropped.

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In the E-Rate fraud case in McAllen, Texas, the sentencing hearing for Rafael G. Adame, who was convicted in February of this year on seven counts of wire fraud in a scheme to defraud the E-rate program, is set for November 19, 2007. As stated in the preceding Semi-Annual Report, Mr. Adame was convicted of submitting false invoices for payment over a multi-year period – monies intended to benefit the Weslaco Independent School District.

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During this period, the Assistant Inspector General for Investigations concluded an inquiry into an allegation that a file containing non-confidential contract documents relating to termination of telecommunication services between the United States and the country of Haiti was missing from the FCC's Reference Information Center and could not be located. This investigation followed a February 12, 2007 Opinion Column article in the Wall Street Journal (regarding two civil lawsuits) that suggested that the missing file might contain relevant evidence. The Office of the

# INVESTIGATIONS

Chairman specifically requested that the Inspector General investigate the matter. The result of this investigation led to recommendations being made to the Office of Managing Director to enhance file-room security procedures. During this investigation, the missing file was reconstructed by the International Bureau and is now available in the FCC's Public Reference room.

In May 2007, the Kansas City, Missouri School District ("KCMSD") agreed to relinquish over \$13.6 million in claims for Federal funds and to pay the United States \$66,000 as a civil settlement relating to false claims and false statements in connections with the FCC's E-rate program from 2002 to 2006. The U.S. Department of Justice contended that KCMSD pursued claims for payments for a contract that had been cancelled, did not comply with the mandatory competitive bidding process, and improperly extended contracts to avoid re-bidding.

An inquiry requested by the Government Accountability Office ("GAO") into allegations of waste, procurement impropriety, and telecommunications security purportedly arising out of the purchase of six items of telephone equipment and communications services was conducted by the OIG. The investigation uncovered no evidence of fraud, waste, or abuse. The matter was officially closed and GAO was notified of the results of the investigation.

In May 2007, two former Dallas Independent School District ("DISD") officials were indicted for taking bribes from a computer vendor whose company was awarded \$39 million in technology contracts in 2002 and 2003. Indicted were Ruben Bohuchot, a former DISD associate superintendent of technology; William Coleman, a former DISD deputy superintendent who later became interim superintendent of Detroit Public Schools; and Frankie Wong, president of Micro System. They were charged with bribery, conspir-

# INVESTIGATIONS

acy, and money laundering. According to the indictment, they used shell companies and phony invoices to siphon off millions of dollars in technology funding for their personal use. The trail is set to begin in March, 2008.



During this period, the OIG concluded an inquiry into whether resolution of a 2005 formal complaint alleging violations of the Telephone Consumer Protection Act of 1991 was taking an unduly lengthy period of time. The Assistant Inspector General for Investigations was recused on the matter. After further investigation, the Inspector General concluded that the matter had necessitated complex determinations, and had been addressed with reasonable diligence by Enforcement Bureau staff. The Office of Inspector General will, however, continue to monitor the process of the complaint until it is finally resolved.



An inquiry into allegations that evidence submitted to the FCC in support of a fil-

ing had been lost and consequently left unconsidered by policy makers was conducted by the Assistant Inspector General for Investigations. Subsequent thereto, the OIG found that no systemic flaws appeared to exist in the FCC's document intake system.



A Federal grand jury during August, 2007 indicted R. Clay Harris on charges of allegedly paying more than \$230,000 in bribes to a former Atlanta Public School ("APS") official in exchange for favorable treatment on technology contracts. The indictment alleges that, starting in late 2001 and continuing until late 2002, Harris' technology company, Multimedia Communications Services Corp., made payments to M&S Consulting, a business partnership between Arthur Scott and his wife, Evelyn Myers Scott, that accounted for more than 70 percent of the money the couple solicited from technology vendors. The trial date has yet to be set by the court.

# INVESTIGATIONS

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In September 2007, Arthur Scott, the former technology director at APS, was sentenced to serve 37 months in Federal prison after pleading guilty earlier in the year to bribery and fraud for taking \$323,000 from vendors seeking preferential treatment. Scott's wife, Evelyn Myers Scott, who worked for her husband in the school system's technology department, was sentenced to 24 months for her role in aiding the conspiracy. While at APS, Scott oversaw the district's E-Rate program and accepted a series of bribes paid by vendors doing business with the Atlanta school district.

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During this period, the OIG continued an investigation regarding consumer information and the complaint process within the FCC, including the commencement of two audits designed to explore and analyze the process. These audits will support the investigatory work which is ongoing.

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The investigation the OIG initiated regarding allegations of inappropriate conduct by individuals at the FCC, past and present, concerning the possible destruction and/or suppression of draft studies or reports regarding localism and media ownership was completed soon after the reporting period for this report. That investigation will therefore be addressed in the next semi-annual report.

## OIG HOTLINE

During this reporting period, the OIG Hotline technician received numerous calls to the published hotline numbers of (202) 418-0473 and 1-888-863-2244 (toll free). The OIG Hotline continues to be a vehicle by which Commission employees and parties external to the FCC can contact the OIG to speak with a trained Hotline technician. Callers who have general questions or concerns not specifically related to the missions or functions of the OIG office are referred to the FCC Consumer Center at 1-888-225-5322. In addi-

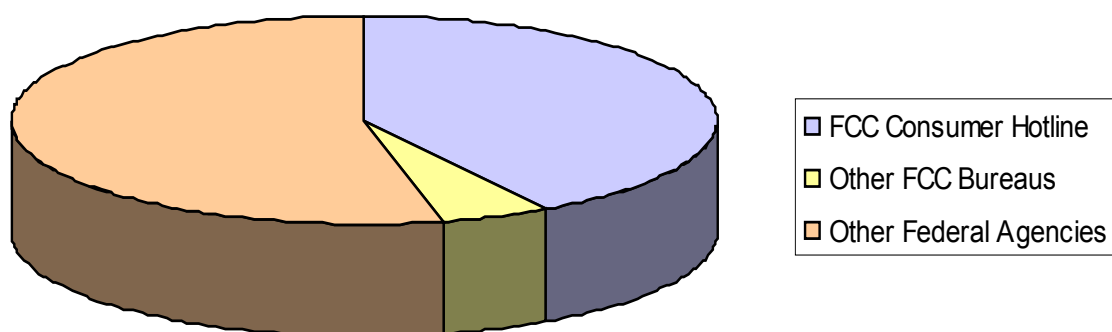


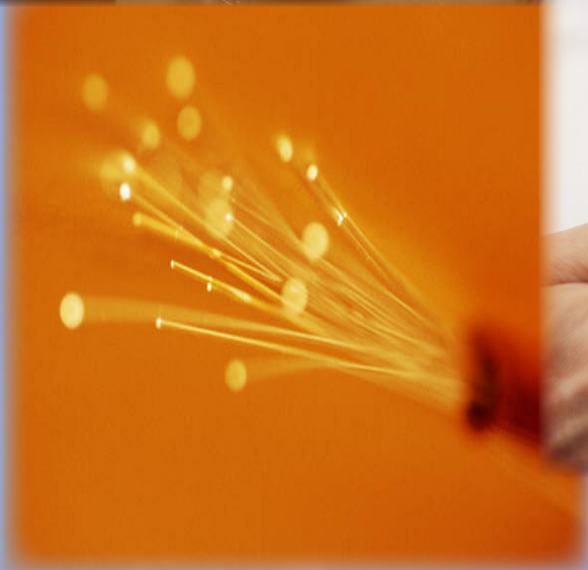
# INVESTIGATIONS

tion, the OIG also refers calls that do not fall within its jurisdiction to other entities, such as other FCC offices, Federal agencies and local or state governments. Examples of calls referred to the Consumer Center or other FCC offices include complaints pertaining to customers' phone service and local cable providers, long-distance carrier slamming, interference, or similar matters within the program

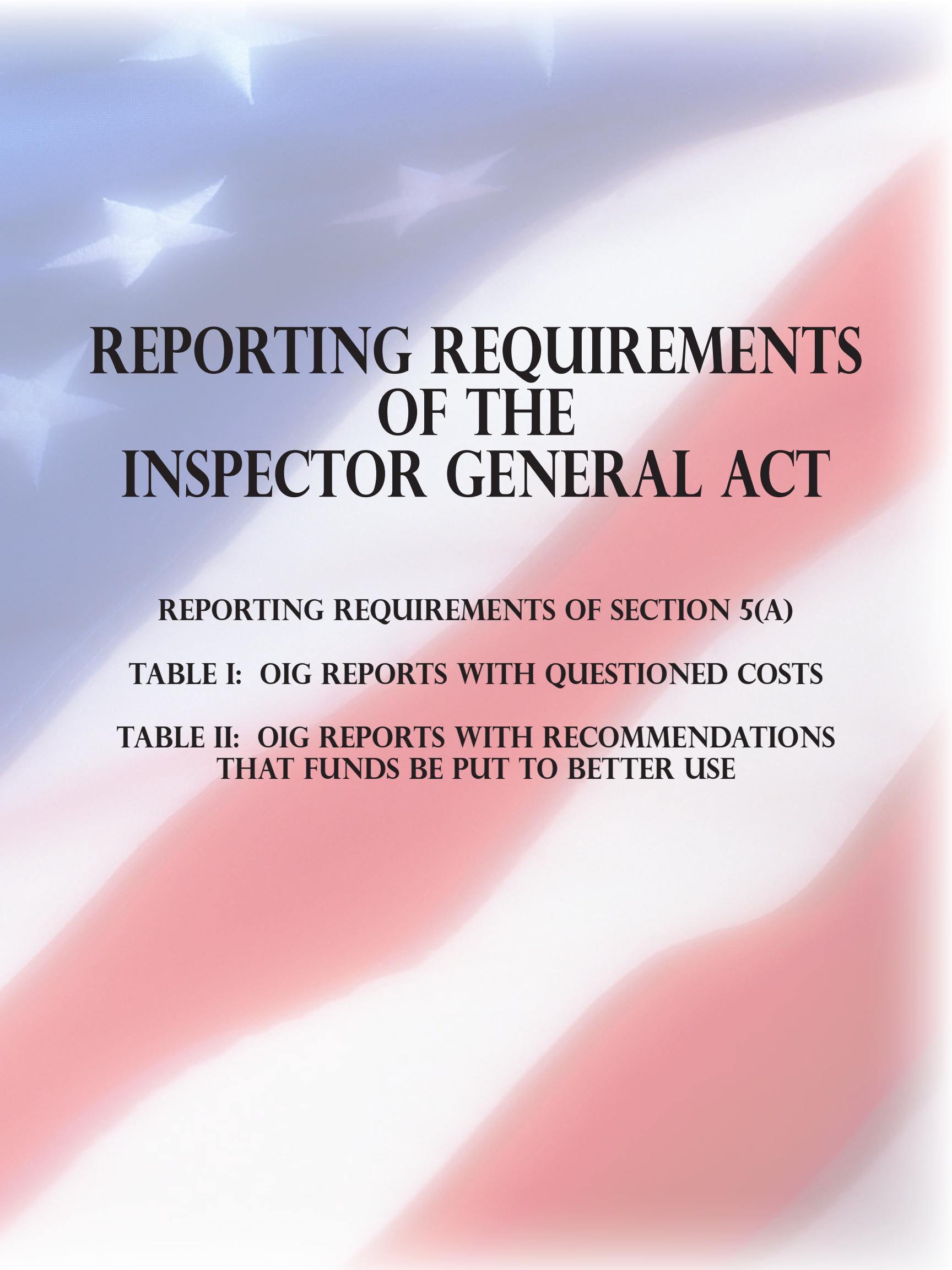
responsibility of other FCC bureaus and offices. During this reporting period, we received 899 Hotline calls. Many of these calls were forwarded to the FCC Consumer Center (372 calls) and other FCC bureaus (46 calls). The balance of calls were referred to other Federal agencies, primarily the Federal Trade Commission (481 calls).

**Hotline Calls Record**  
**April 1, 2007 - September 30, 2007**







The background of the entire page is a stylized, slightly blurred image of the United States flag, showing the stars and stripes in shades of blue, white, and red.

# **REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT**

## **REPORTING REQUIREMENTS OF SECTION 5(A)**

### **TABLE I: OIG REPORTS WITH QUESTIONED COSTS**

### **TABLE II: OIG REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

# REPORTING REQUIREMENTS

This section summarizes the Office of Inspector General response to the 12 specific reporting requirements set forth in Section 5(a) of the Inspector General Act of 1978, as amended.

1. A description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of such establishment disclosed by such activities during the reporting period.

Please refer to the Section of this report titled "Universal Service Fund" on pages 16 through 20 and the Section of this report captioned "Telecommunications Relay Service" on page 13.

2. A description of the recommendations for corrective action made by the Office during the reporting period with respect to significant problems, abuses, or deficiencies identified pursuant to paragraph (1).

Please refer to the Section of this report titled "Universal Service Fund" on pages 16 through 20 and the Section of this report captioned "Telecommunications Relay Service" on page 13.

3. An identification of each significant recommendation described in previous semiannual reports on which corrective action has not yet been completed.

No significant recommendations remain outstanding.

4. A summary of matters referred to authorities, and the prosecutions and convictions which have resulted.

Please refer to the Section of this report entitled "Universal Service Fund" on pages 16 through 20 and "Investigations" on pages 21 through 29.

5. A summary of each report made to the head of the establishment under section (6) (b) (2) during the reporting period.

No report was made to the Chairman of the FCC under section (6) (b) (2) during this reporting period.

6. A listing, subdivided according to subject matter, of each audit report issued by the Office during the reporting period, and for each audit report, where applicable, the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and the dollar value of recommendations that funds be put to better use.

Each audit report issued during the reporting period is listed according to subject matter and described in the "Audit Areas" section and in Tables I and II of this report.

7. A summary of each particularly significant report.

Each significant audit and investigative report issued during the reporting period is summarized within the body section and in Tables I and II of this report.

8. Statistical tables showing the total number of audit reports with questioned costs and



# REPORTING REQUIREMENTS

the total dollar value of questioned costs.

The required statistical table can be found at Table I to this report.

9. Statistical tables showing the total number of audit reports with recommendations that funds be put to better use and the total dollar value of such recommendations.

The required statistical table can be found at Table II to this report.

10. A summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of the reasons why such a management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report.

No audit reports fall within this category.

11. A description and explanation of the reasons for any significant revised management decision made during the reporting period.

No management decisions fall within this category.

12. Information concerning any significant management decision with which the Inspector General is in disagreement.

No management decisions fall within this category.

13. Information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.

No reports with this information have been issued during this reporting period.

# REPORTING REQUIREMENTS

| Table I: OIG Reports With Questioned Costs                                                     |                   |                  |                   |
|------------------------------------------------------------------------------------------------|-------------------|------------------|-------------------|
| Inspector General Reports With Questioned Costs                                                | Number of Reports | Questioned Costs | Unsupported Costs |
| A. For which no management decision has been made by the commencement of the reporting period. | –                 | –                | –                 |
| B. Which were issued during the reporting period.                                              | 4 <sup>1</sup>    | \$3,887,086      | –                 |
| C. For which a management decision was made during the reporting period.                       | 4                 | \$3,887,086      | –                 |
| (i) Dollar value of disallowed costs                                                           | –                 | –                | –                 |
| (ii) Dollar value of costs not disallowed                                                      | –                 | –                | –                 |
| D. For which no management decision has been made by the end of the reporting period.          | –                 | –                | –                 |
| Reports for which no management decision was made within six months of issuance.               | –                 | –                | –                 |

<sup>1</sup>One report was issued in draft, containing \$570,458 in questioned costs. See page 18 for details.

# REPORTING REQUIREMENTS

**Table II: OIG Reports With Recommendations That Funds Be Put To Better Use**

| Inspector General Reports With Recommendations That Funds Be Put To Better Use                 | Number of Reports | Dollar Value |
|------------------------------------------------------------------------------------------------|-------------------|--------------|
| A. For which no management decision has been made by the commencement of the reporting period. | –                 | –            |
| B. Which were issued during the reporting period.                                              | –                 | –            |
| C. For which a management decision was made during the reporting period.                       | –                 | –            |
| (i) Dollar value of disallowed costs                                                           | –                 | –            |
| (ii) Dollar value of costs not disallowed                                                      | –                 | –            |
| D. For which no management decision has been made by the end of the reporting period.          | –                 | –            |
| Reports for which no management decision was made within six months of issuance.               | –                 | –            |





# **Report Fraud, Waste or Abuse to:**

**Office of the Inspector General**

**Federal Communications Commission**

**EMAIL**  
**Hotline@FCC.gov**

**CALL**  
**Hotline: (202) 418-0473**  
**or**  
**(888) 863-2244**

**[www.FCC.gov/OIG](http://www.FCC.gov/OIG)**



**You are always welcome to write or visit.**  
**Office of the Inspector General**

**Federal Communications Commission**  
**Portals II Building**  
**445 12th St., S.W. –Room #2-C762**

Federal Communications Commission  
Office of the Inspector General



445 12th St., SW  
Washington, DC 20554

[www.FCC.gov/OIG](http://www.FCC.gov/OIG)

